

Tennessee Health Facilities Commission

**For the Years Ended
June 30, 1999, and June 30, 1998**

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STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

State Capitol
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John G. Morgan
Comptroller

August 11, 2000

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Ms. Linda Penny, Executive Director
Tennessee Health Facilities Commission
500 James Robertson Parkway, Suite 760
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Tennessee Health Facilities Commission for the years ended June 30, 1999, and June 30, 1998.

We conducted our audit in accordance with generally accepted government auditing standards. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the commission's compliance with the provisions of policies, procedures, laws, and regulations significant to the audit. Management of the Tennessee Health Facilities Commission is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit resulted in no audit findings.

We have reported other less significant matters involving the commission's internal controls and/or instances of noncompliance to the Tennessee Health Facilities Commission's management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

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State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Health Facilities Commission
For the Years Ended June 30, 1999, and June 30, 1998

AUDIT SCOPE

We have audited the Tennessee Health Facilities Commission for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, payroll and personnel, contested case resolution procedures, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

AUDIT FINDINGS

The audit report contains no findings.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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Audit Report
Tennessee Health Facilities Commission
For the Years Ended June 30, 1999, and June 30, 1998

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Tennessee Health Facilities Commission

For the Years Ended June 30, 1999, and June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Tennessee Health Facilities Commission. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

The Tennessee Health Facilities Commission is responsible for regulating the health care industry in Tennessee through the Certificate of Need program created by the General Assembly. This program regulates the establishment and modification of health care institutions, facilities, and services and ensures that health care projects are accomplished in an orderly, economical manner consistent with the health care needs of the people of Tennessee. The 13-member commission, appointed by the Governor, is composed of the Commissioner of Mental Health and Mental Retardation, the Commissioner of Health, the Comptroller of the Treasury, an executive of a hospital, a nursing home administrator, a physician, an executive of a home health agency, and six members of the general public knowledgeable of health needs and services.

The duties of the commission are to issue or deny certificates of need, based on provisions of current statute; to promulgate rules as set forth in the statute; and to require the submission of periodic reports by health care institutions and health care maintenance organizations concerning the development of proposals subject to review under the statute.

The commission must also submit a fiscal impact statement to the chairman of the Senate and House Finance, Ways and Means Committees after each approval of additional hospital and/or nursing home beds. The statement is to reflect the estimated impact of those additions on future state appropriations and/or expenditures. The commission employs an executive director and additional professional staff who carry out the commission’s duties.

The Tennessee Health Facilities Commission is part of the general fund of the State of Tennessee and is accounted for in allotment code 316.07.

An organization chart of the Tennessee Health Facilities Commission is on the following page.

AUDIT SCOPE

We have audited the Tennessee Health Facilities Commission for the period July 1, 1997, through June 30, 1999. Our audit scope included a review of management's controls and compliance with policies, procedures, laws, and regulations in the areas of revenue, expenditures, equipment, payroll and personnel, contested case resolution procedures, and compliance with the Financial Integrity Act. The audit was conducted in accordance with generally accepted government auditing standards.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

REVENUE

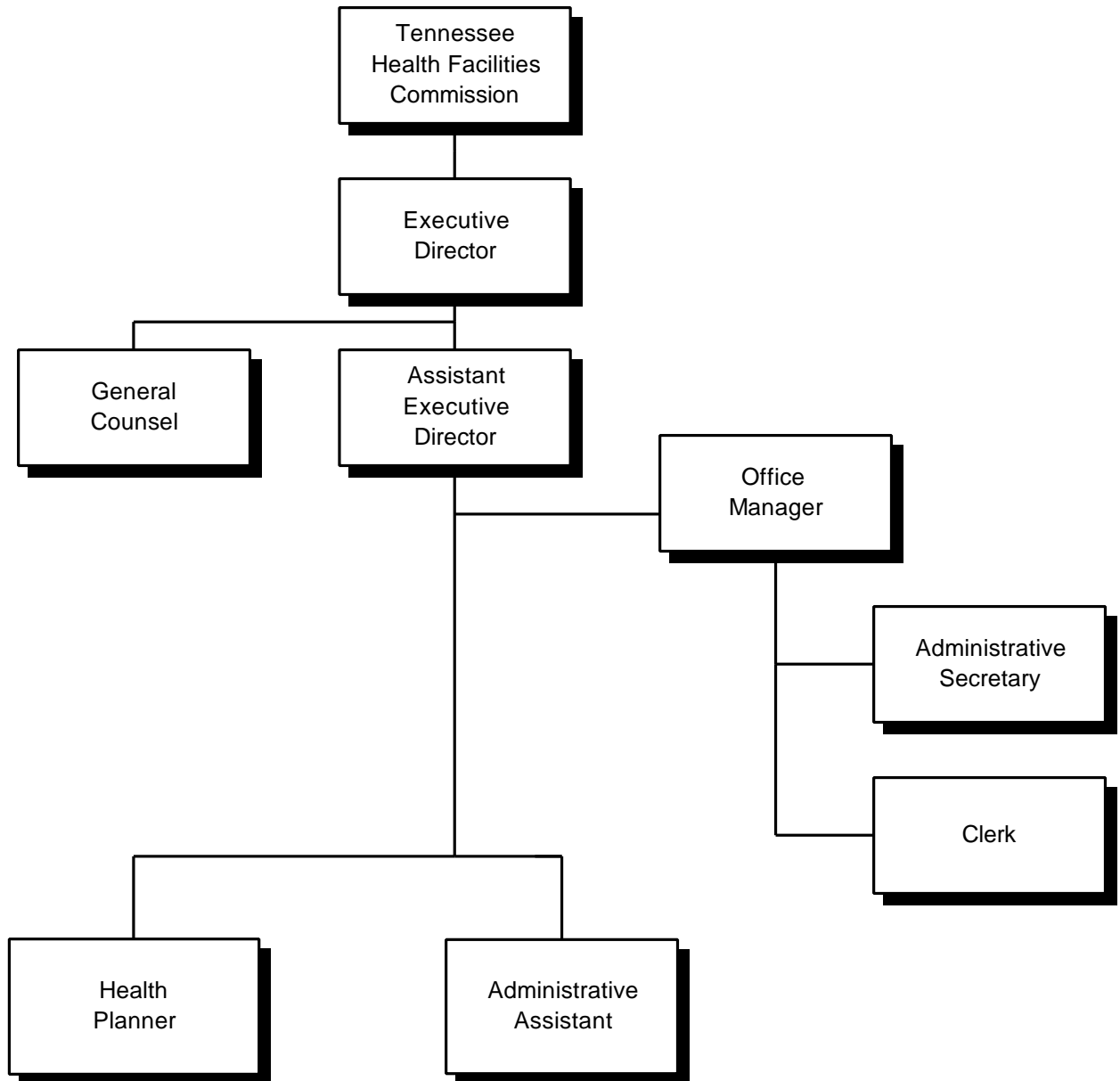
The objectives of our review of the revenue controls and procedures for the Tennessee Health Facilities Commission were to

- gain an understanding of the commission's controls over revenue;
- determine if revenue received during the audit period was deposited timely and accounted for in the appropriate fiscal year;
- determine whether policies and procedures regarding revenue were adequate; and
- determine whether revenue transactions were properly recorded and appeared valid.

We reviewed the applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain an understanding of the commission's procedures and controls over revenue. We tested revenue transactions for proper coding and recording, timely deposit, and adequate support. The sampling worksheet for financial related audits was utilized to select the appropriate sample size for the compliance test.

Based on the interviews, reviews, and testwork, the commission's controls over revenue appeared adequate; revenue transactions were recorded properly, deposited timely, and accounted for appropriately. We had no findings related to revenue.

Tennessee Health Facilities Commission



EXPENDITURES

The objectives of our review of expenditure controls and procedures in the Health Facilities Commission were to

- gain an understanding of the commission's internal controls over expenditures;
- determine if policies and procedures regarding expenditures are adequate;
- determine if recorded expenditures for goods or services were properly authorized, recorded, and procured in accordance with the applicable regulations and requirements;
- determine if payments were made in a timely manner;
- determine if payments for travel were paid in accordance with the Comprehensive Travel Regulations;
- determine if expenditures for goods or services were adequately supported and correctly recorded in the state's accounting records; and
- identify the major budget line item cost category for commission expenditures.

Key personnel were interviewed, and the applicable laws, regulations, and supporting documentation were reviewed to gain an understanding of the commission's controls and procedures over expenditures. A sample of expenditures, excluding payroll, was tested for proper authorization, coding and recording, timely payment, and adequate support. Payments in the sample for travel were tested for compliance with the Comprehensive Travel Regulations. State of Tennessee Accounting and Reporting System (STARS) expenditure reports for the audit period were reviewed to identify the major spending category for commission expenditures. Based on the review, professional service expenditures were selected and a sample of transactions was tested for compliance with appropriate regulations.

Based on a review of the applicable laws and regulations, interviews with key personnel, review of supporting documentation, and testwork, the commission's control over expenditure transactions appeared adequate. The transactions for goods or services were adequately supported, properly authorized, and recorded. Payments were made promptly, and travel expenditures were in compliance with Comprehensive Travel Regulations. We had no findings related to expenditures; however, other minor weaknesses came to our attention which have been reported to management in a separate letter.

EQUIPMENT

The objectives of our review of equipment controls and procedures in the Health Facilities Commission were to

- gain an understanding of the commission's internal controls over equipment;
- determine if equipment purchases recorded on the State of Tennessee Accounting and Reporting System (STARS) for the audit period were adequately supported and properly added to the commission's property listing;
- determine if equipment was adequately safeguarded;
- determine if procedures regarding equipment were adequate; and
- review the commission's levels of Property of the State of Tennessee (POST) user access and determine propriety.

We reviewed the applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain an understanding of the commission's controls and procedures over equipment. All equipment purchased during the audit period was tested for adequate support and traced to the commission's property listing. Equipment additions were observed to determine if the description, tag number, and location were appropriate and that the item existed. The commission's equipment list was compared to STARS for completeness.

Based on the reviews, interviews, and testwork, the controls over equipment appeared adequate. POST user access is restricted to the appropriate key personnel only. Equipment purchased during the audit period was observed, and the purchase was adequately supported and properly recorded on POST. Equipment items were adequately safeguarded. We had no findings related to equipment; however, minor weaknesses came to our attention which have been reported to management in a separate letter.

PAYROLL AND PERSONNEL

The objectives of our review of the payroll and personnel controls and procedures in the Health Facilities Commission were to

- gain an understanding of the commission's internal controls over payroll and personnel;
- determine if payroll disbursements were authorized, adequately supported, and properly calculated;

- determine if policies and procedures regarding payroll and personnel were adequate; and
- determine if newly hired employees were qualified for their positions.

We interviewed key personnel and reviewed supporting documentation to gain an understanding of the commission's controls and procedures over payroll and personnel. Payroll transactions were nonstatistically selected and verified using documentation in employees' payroll and employment files. Newly hired employees' files were reviewed, and hiring procedures were discussed with appropriate personnel to determine that the newly hired employees met the job qualifications.

Based on our interviews, reviews, and testwork, the commission's controls over payroll and personnel appeared adequate; the payroll disbursements were authorized, adequately supported, and properly calculated; and newly hired employees were qualified for their positions. We had no findings related to payroll.

CONTESTED CASE RESOLUTION PROCEDURES

The objectives of our review of the contested case resolution process in the Tennessee Health Facilities Commission were to

- gain an understanding of the commission's internal controls over contested cases;
- determine if contested cases were handled appropriately; and
- determine if commission policies and procedures regarding the contested case resolution process are adequate and based on current state law.

We reviewed the applicable laws and regulations, interviewed key personnel, and reviewed supporting documentation to gain an understanding of the commission's controls and procedures over contested cases. All contested case files for the audit period were tested for proper recording, adequate support, and timeliness of petition.

Based on the interviews, reviews, and testwork, the commission's controls over contested cases appeared adequate, contested cases for the audit period were properly recorded and adequately supported, and the petitions were submitted timely. We had no findings related to contested case resolution procedures; however, a minor weakness came to our attention which has been reported to management in a separate letter.

FINANCIAL INTEGRITY ACT

The Financial Integrity Act of 1983 requires the head of each executive agency to submit a letter acknowledging responsibility for maintaining the internal control system of the agency to the Commissioner of Finance and Administration and the Comptroller of the Treasury by June 30, 1999, and each year thereafter. In addition, the head of each executive agency is also required to conduct an evaluation of the agency's internal accounting and administrative control and submit a report by December 31, 1999, and December 31 of every fourth year thereafter.

The objective of our review of the Tennessee Health Facilities Commission's compliance with the Financial Integrity Act was to determine whether the department's June 30, 1999, responsibility letter was filed in compliance with the Financial Integrity Act of 1983.

We determined that the Financial Integrity Act responsibility letter was submitted on time.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.